# New CIT Act: general provisions in financial accounting (3/42/17)

We have already informed our MindLink subscribers about the corporate income tax (CIT) treatment of provisions as part of the CIT reform. This article explores the CIT treatment of general provisions under the new CIT Act.

Procedures in place before 2018

According to the current procedures for paying CIT, taxable income for a tax period should be calculated as follows:

- Any increase in general provisions that has been expensed should be added back to taxable income. If that is the first year the company has recognised provisions, the full amount of provisions should be added to taxable income;
- Any reduction in provisions can be deducted from taxable income if an increase in provisions was reported on the CIT return as an addition to taxable income in earlier tax periods.

The new CIT Act

Under the new CIT model any movement of provisions in accounting records after 2017 will no longer affect the tax base.

Special clauses of the transition rules will have to be observed in order to write off any provisions appearing on the balance sheet as at 31 December 2017 that have been added to taxable income in earlier tax periods.

Transition rules

Any provisions on the balance sheet as at 31 December 2017 to be reduced after 2017 can be deducted from the tax base and attract a coefficient of 0.75 subject to the following conditions:

- The provisions were included the tax base in the period they were recognised;
- They are recorded separately from other provisions after 2017.

If provisions recognised in the financial year 2017 exceed provisions recognised in the financial year 2016, then additional restrictions apply:

- Any reduction in these provisions attracting a coefficient of 0.75 can be deducted only from dividends or deemed dividends included in the tax base;
- These provisions should be recorded separately from other provisions after 2017.

This means that the transition rules do not restrict the period for reducing the tax base, but they do restrict the tax base companies can reduce – in certain cases to dividends paid. And the administrative burden will increase considerably, given the transitional obligation to separately record provisions recognised before 2018 and after 2017, as well as provisions recognised in the financial year 2017.